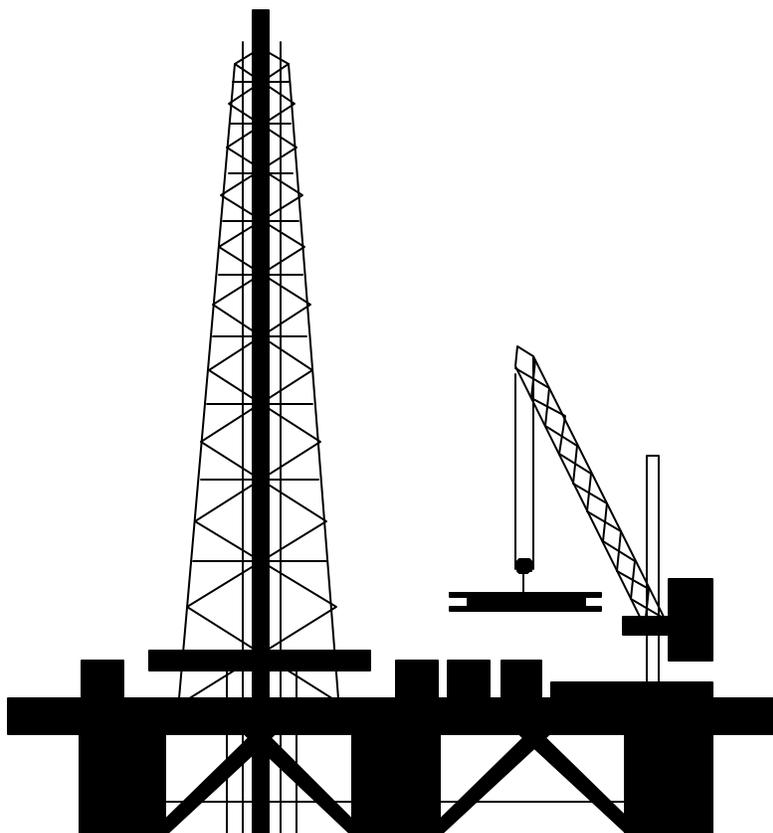


Western Gulf of Mexico Sale 180 August 22, 2001

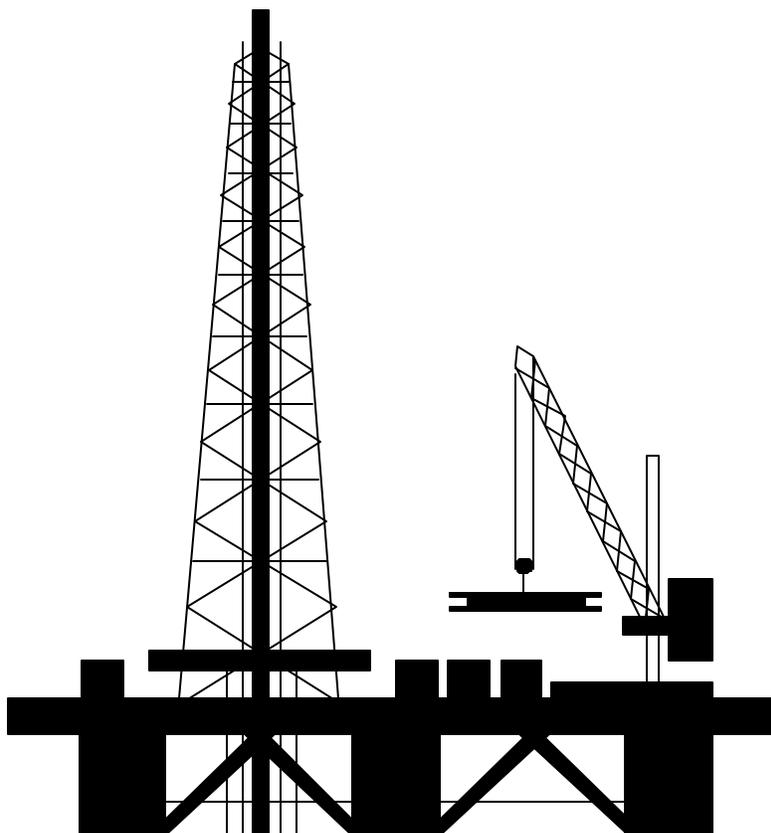
Sale Summary, Bidding Results and
Related Analyses



Western Gulf of Mexico Sale 180 August 22, 2001

Sale Summary, Bidding Results and
Related Analyses

By
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Western Gulf of Mexico

Sale 180 August 22, 2001 Sale Overview

Sale 180 in the Western Gulf of Mexico (WGOM) was the first sale in that planning area in which the sale's royalty suspension volumes and water depth categories were specified in the notice of lease sale. The "new lease" provisions of the Deep Water Royalty Relief Act of 1995 (DWRRA) were no longer mandatory. In this sale, 320 tracts received 386 bids (an average of 1.21 bids per tract) and 136 of those tracts were in water depths eligible for royalty relief.

Bidding Results

Sale 180, in terms of the number of tracts receiving bids, was about 40 percent larger than WGOM Sale 177 held in 2000. The increase in aggregate high bids in Sale 180 compared to Sale 177 was relatively small, an increase of about 8 percent. In Sale 180, 320 tracts received 386 bids with high bids totaling \$165,571,777.

Bidding results by water depth zone are summarized in Table 1 and more complete details are presented in Appendix A.

Table 1.—*Bidding Activity by Water Depth Zone*

Water Depth	Tracts with Bids	High Bids (\$MM)	Number of Bids	Average Bids/Tract
< 200 m.	125	\$46.45	144	1.15
200 - 399 m.	18	\$6.86	22	1.22
400 - 799 m.	41	\$54.83	72	1.76
800 – 1,599 m.	93	\$40.90	100	1.08
1,600+ m.	43	\$16.53	48	1.12
Total	320	\$165.57	386	1.21

Bidding activity in Sale 180 resulted in a large increase in the number of tracts receiving bids and number of bids, as well as a relatively small increase in aggregate high bids compared to the previous WGOM sale (Sale 177, August 23, 2000). In Sale 177, 226 tracts received 266 bids, whereas 320 tracts received 386 bids in Sale 180, resulting in increases of 42 and 45 percent, respectively. In addition, the sum of high bids submitted on tracts receiving bids in Sale 180 increased by about 8 percent compared to Sale 177 (\$165.57 million v. \$153.66 million). The increase in tracts, number of bids, and aggregate high bids was due to higher levels of bidding

activity, especially in water depths of 200 meters or more. The amount of competition for tracts was similar to other recent WGOM lease sales. About 85 percent of tracts received single-bids. Two-bid tracts accounted for the next highest percent of tracts receiving bids (about 12 percent). A summary of aggregate bidding results by number of bidders is presented in Table 2 and bidding results by number of bids for the various water depth zones are presented in Appendix B.

Table 2.—*Bidding Results by Number of Bids Submitted*¹

Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	272	85.00%	\$103.14	62.30%
2	38	11.88%	\$45.18	27.29%
3	6	1.88%	\$5.93	3.58%
4	2	0.62%	\$8.11	4.90%
5 or more	2	0.62%	\$3.20	1.93%
Total	320	100.00%	\$165.57	100.00%

Sale 180 was typical of sales in the WGOM as more tracts received high bids of less than \$50 per acre than those receiving more than that amount. In Sale 180, tracts with high bids greater than \$150 per acre accounted for about 48 percent of aggregate high bids, an amount lower than that observed in Sale 177. A summary of bidding results by high bid per acre for the sale is presented in Table 3 and bidding results by high bid per acre for the various water depth zones are presented in Appendix C. In addition, a graphical presentation of bidding results is presented in Appendix D.

Table 3.—*Bidding Results by High Bid per Acre*

High Bid per Acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	187	58.44%	\$38.09	23.01%
\$50 - 74.99	50	15.62%	\$18.06	10.91%
\$75 - 99.99	19	5.94%	\$9.49	5.73%
\$100 - 149.99	30	9.38%	\$20.56	12.41%
\$150+	34	10.62%	\$79.37	47.94%
Total	320	100.00%	\$165.57	100.00%

¹ In the tables throughout this report, percent totals may not add exactly to 100.00% because of rounding. In addition, other totals in the tables, e.g., high bids, also may differ slightly from the text because of rounding.

Bidding on Royalty Suspension Volume Tracts

A total of 93 tracts in 800 - 1,599 meters that are eligible for royalty suspension volumes of 9 million barrels of oil equivalent (MMBOE) received bids, as did 43 tracts in 1,600 meters or more that are eligible for royalty suspension volumes of 12 MMBOE. These tracts accounted for 43 percent of the tracts in the sale receiving bids and 35 percent of the sale's high bids. To put the magnitude of this bidding activity in perspective, the number of tracts receiving bids in water depths of 800 meters or more in Sale 180 was 68 percent higher, but their associated high bids were 40 percent lower than those received in Sale 177. These results are interesting because the royalty relief offered with this sale's royalty suspension volumes is potentially much lower than that available in previous sales under the provisions of the DWRRA, yet more tracts received bids. However, the average high bid in these water depths was much lower than in previous sales with DWRRA-mandated royalty suspension volumes.

In the water depth categories between 200 - 799 meters, bidding activity in Sale 180 greatly exceeded the level observed in Sale 177 for both tracts receiving bids and aggregate high bids. This result was surprising because tracts in these water depths previously were eligible for royalty suspension volumes under the provisions of the DWRRA. In Sale 180, tracts in 200 - 799 meters are not eligible for automatic royalty suspension volumes.

In comparing the average high bid per acre by water depth category between Sales 180 and 177 in water depth categories below 800 meters, the Sale 180 averages were above those observed in Sale 177. In water depths less than 200 meters, the Sale 180 average was \$67.43/acre and the Sale 177 average was \$66.67/acre. In 200 - 400 meters, Sale 180's average was \$69.95/acre and Sale 177's was \$54.36/acre. In 400 - 800 meters, Sale 180's average was \$232.17/acre and Sale 177's was \$162.11/acre. However, in 800 meters or more, Sale 180's average was \$74.88/acre and Sale 177's was \$206.29/acre. These results suggest that industry continues to perceive significant economic potential to exist in deep water despite the lower amounts of royalty suspension volumes currently being offered.

Phase 1 Results

Following the post-sale bid evaluation procedures, which include a modified 3-bid rule, high bids on 85 tracts were accepted in Phase 1 of Sale 180. High bids were accepted on 58 tracts in water depths less than 200 meters, 11 tracts in 200 - 799 meters, and 16 tracts in water depths of 800 meters or more, which are eligible for automatic royalty suspension volumes. The Phase 1-accepted high bids accounted for about 27 percent of the tracts, representing 14 percent of the high bids. In terms of Phase 1 bid acceptances, the two most successful companies were: Exxon Mobil with 17 of 29 high bids accepted and Spinnaker Exploration with 14 of 32 high bids accepted.

High bids accepted in Phase 1 were in two categories of tracts. There were 84 wildcat and confirmed tracts determined to be non-viable. In addition, one tract was accepted in Phase 1 by the number of bids rule. The Sale 180, Phase 1 results by number of bids and high bid per acre are presented in Tables 4 and 5, respectively.

Table 4.—Phase 1 Results by Number of Bids

Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	77	90.59%	\$19.19	80.09%
2	7	8.23%	\$2.67	11.14%
3+	1	1.18%	\$2.10	8.77%
Total	85	100.00%	\$23.96	100.00%

Table 5.—Phase 1 Results by High Bid per Acre

High Bid per Acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	62	72.94%	\$11.93	49.79%
\$50 - 74.99	13	15.29%	\$4.38	18.28%
\$75 - 99.99	4	4.71%	\$1.63	6.80%
\$100 - 149.99	3	3.53%	\$1.99	8.31%
\$150+	3	3.53%	\$4.03	16.82%
Total	85	100.00%	\$23.96	100.00%

Revised Arithmetic Average Measure of Tract (RAM)

The RAM is a secondary bid acceptance criterion that was used in Phase 2 of the Sale 180 bid evaluation process on multi-bid tracts that have high bids that do not exceed the Government's Adjusted Delayed Value (ADV) of the tract. The ADV is explained in detail in Appendix J.

For evaluating the high bids on multi-bid tracts that do not exceed the ADV, the RAM is applied to (a) drainage and development tracts having three or more qualified bids with the third highest bid being at least 25 percent of the tract's high bid and (b) confirmed and wildcat tracts having two or more qualified bids with the second highest bid being at least 25 percent of the tract's high bid. Only bids that are at least 25 percent of the high bid are considered in calculating the RAM. If the high bid exceeds the RAM, it is accepted.

Use of the RAM allows the MMS to balance market factors and its own ADV evaluation in determining fair market value. Previously, using the Geometric Average Evaluation Of Tract (GAEOT), a few low losing bids on a tract were sufficient to require an MMS evaluation of the ADV well in excess of \$100 million for the high bid to be rejected. Using the RAM, the highest ADV required to reject a high bid on a multi-bid tract in Sale 180 was about \$3 million. This value for a lease is not unreasonable relative to high bids observed in this sale.

In Sale 180, 9 tracts classified as wildcat and confirmed receiving three or more bids were passed to Phase 2 for evaluation. These tracts, potentially, could have their bid acceptance or rejection decision based on the RAM. After adjusting the number of bids to include only those bids that are at least 25 percent of a tract's high bid, 7 tracts could be eligible for a decision based on the RAM. These seven tracts would require ADV's of around \$0.47 million to \$3 million for rejection. For one tract (G23275) in Sale 180, the RAM was the decision rule that allowed the high bid to be accepted. Detailed tables of tracts receiving three or more bids by water depth zone are presented in Appendix E.

Bidding Activity

The number of companies participating in Sale 180 decreased to 50 from the 60 active in Sale 177, the previous WGOM sale. Ten companies submitted bids (either solo or jointly) on 15 or more tracts. Kerr-McGee Oil & Gas Corporation was the most active company in terms of bids submitted with 55. The most apparent high bids, 42, were also submitted by Kerr-McGee, which had the greatest aggregate high bids with a total of \$31.86 million as well.

With about 15 percent of the tracts receiving bids in the sale being multi-bid tracts, three firms (Exxon Mobil, Mariner Energy, and Enterprise Oil) that submitted 10 or more bids were the high bidder on every bid they submitted. For firms submitting 20 or more bids, the most successful bidder was Exxon Mobil, with 29 high bids out of the 29 bids that it offered.

The 10 most active bidders in terms of total amount of high bids are listed in Table 6. Also listed in the table are the total number of bids and number of high bids submitted by the companies with their rank indicated in parentheses. Appendix F contains a summary of bids for all companies that participated in the sale.

Although some companies that were most active in CGOM Sale 177 (August 23, 2000) continued to be among the most active in Sale 180, a few changes were apparent when companies were ranked by high bids submitted. For example, two Sale 177 top ten firms (CXY Energy Offshore and PanCanadian GOM) did not participate in Sale 180.

Appendix G presents a listing of bidding by the most active companies in Sales 180 and 177.

Table 6.—*Most Active Bidders by Total Amount of High Bids*
(For number of bids and high bids, rank is in parentheses.)

Company	Total High Bids	Number of Bids	High Bids
Kerr-McGee Oil & Gas Corporation	\$31,860,853	55 (1)	42 (1)
Spinnaker Exploration Company, L.L.C.	\$17,436,400	38 (2)	32 (2)
Petrobras America, Inc.	\$16,850,373	35 (3)	30 (3)
Amerada Hess Corporation	\$13,539,415	32 (4)	25 (6)
Shell Offshore, Inc.	\$11,165,600	18 (9)	14 (10)
Exxon Mobil Corporation	\$7,843,000	29 (5)	29 (4)
Pioneer Natural Resources USA, Inc.	\$6,541,050	25 (7)	21 (7)
Ocean Energy, Inc.	\$6,349,440	18 (9)	17 (8)
Murphy Exploration & Production Co.	\$5,197,100	8 (15)	5 (9)
Anadarko Petroleum Corporation	\$5,072,128	28 (6)	26 (17)

Sale 180 v. Sale 177

The results of Sale 180 surpassed the results of Sale 177 in every category of bidding activity except for average high bid per acre. The average high bid per acre was \$122.86 in Sale 177 as compared with \$92.49 in Sale 180. However, in Sale 180, 320 tracts received 386 bids, thus exceeding the 226 tracts that received 266 bids in Sale 177. In addition, the number of bids per tract increased slightly to 1.21 from 1.18 in the previous sale.

The amount of bidding activity in deep water in Sale 180 increased compared to Sale 177. Specifically, the number of tracts potentially eligible for deepwater royalty suspension volumes (water depth of 800 meters or more) receiving bids increased by about 68 percent, but the high bids on these tracts decreased 40 percent. Appendix H presents a graphical comparison of sale results.

In Sale 180, three tracts with high bids that were rejected in Sale 177 received bids. The high bids on the three tracts increased from \$1,996,632 in Sale 177 to \$5,237,152 in Sale 180, an increase in high bids of 162 percent. The number of bids on these three tracts increased from 3 to 4, a gain of 33 percent. Subsequently, the high bid on one of the tracts was rejected in Sale 180. For the two tracts on which the high bids were accepted, the increase was 171 percent. The potential to realize substantial gains in high bids on tracts that were previously rejected highlights the importance of MMS's bid adequacy procedure.

Appendix A

Western Gulf of Mexico
Outer Continental Shelf
Oil and Gas Lease Sale 180

Bidding Summary

Western Gulf of Mexico OCS Oil and Gas Lease Sale 180

Sale Day Statistics by Royalty Rate

	<u>16 2/3% Royalty</u>	<u>12 1/2% Royalty</u>	<u>Sale Total</u>
Tracts Receiving Bids	143	177	320
Acres Receiving Bids	787,047.56	1,003,085.49	1,790,133.05
Sum of High Bids	\$53,316,964	\$112,254,813	\$165,571,777
Sum of All Bids	\$59,781,622	\$130,189,703	\$189,971,325
Total Number of Bids	166	220	386
Average Bids	1.16	1.24	1.21
Companies Bidding	41	27	50
Highest Bid per Tract	\$3,532,604	\$8,323,200	\$8,323,200
- Tract Number	G23199	G23281	G23281
- Number of Bids	2	1	1
Highest Bid per Acre	\$613.30	\$1,445.00	\$1,445.00
- Tract Number	G23199	G23281	G23281
- Number of Bids	2	1	1
Most Bids	3	6	6
- Tract Number	G23167 G23183 G23275	G23277 G23278	G23277 G23278

Western Gulf of Mexico OCS Oil and Gas Lease Sale 180

Sale Day Statistics for 16 2/3% Royalty Rate Tracts

	<u>16 2/3% w/RS¹</u>	<u>16 2/3% w/ROY²</u>	<u>16 2/3% Total</u>
Tracts Receiving Bids	125	18	143
Acres Receiving Bids	688,936.04	98,111.52	787,047.56
Sum of High Bids	\$46,454,200	\$6,862,764	\$53,316,964
Sum of All Bids	\$51,647,269	\$8,134,353	\$59,781,622
Total Number of Bids	144	22	166
Average Bids	1.15	1.22	1.16
Companies Bidding	36	9	41
Highest Bid per Tract	\$3,532,604	\$1,388,334	\$3,532,604
- Tract Number	G23199	G23275	G23199
- Number of Bids	2	3	2
Highest Bid per Acre	\$613.30	\$241.03	\$613.30
- Tract Number	G23199	G23275	G23199
- Number of Bids	2	3	2
Most Bids	3	3	3
- Tract Number	G23167 G23183	G23275	G23167 G23183 G23275

¹ "16 2/3% w/RS" is that category of tract in less than 200 meters of water with a royalty rate of 1/6 that is eligible for royalty suspension volumes of 20 billion cubic feet for natural gas from wells 15,000 feet or more deep.

² "16 2/3% w/ROY" is that category of tract in 200 to 399 meters of water with a royalty rate of 1/6 that is not eligible for an automatic royalty suspension volume.

Western Gulf of Mexico OCS Oil and Gas Lease Sale 180

Sale Day Statistics for 12 1/2% Royalty Rate Tracts

	<u>12 1/2% w/ROY¹</u>	<u>12 1/2% w/RS3²</u>	<u>12 1/2% w/RS4³</u>	<u>12 1/2% Royalty</u>
Tracts Receiving Bids	41	93	43	177
Acres Receiving Bids	236,160.00	519,245.49	247,680.00	1,003,085.49
Sum of High Bids	\$54,830,061	\$40,898,335	\$16,526,417	\$112,254,813
Sum of All Bids	\$68,684,212	\$43,712,595	\$17,792,896	\$130,189,703
Total Number of Bids	72	100	48	220
Average Bids	1.76	1.08	1.12	1.24
Companies Bidding	21	17	13	27
Highest Bid per Tract	\$8,323,200	\$6,301,900	\$2,361,600	\$8,323,200
- Tract Number	G23281	G23312	G23393	G23281
- Number of Bids	1	4	1	1
Highest Bid per Acre	\$1,445.00	\$1,094.08	\$410.00	\$1,445.00
- Tract Number	G23281	G23312	G23393	G23281
- Number of Bids	1	4	1	1
Most Bids	6	4	2	6
- Tract Number	G23277 G23278	G23312	G23381, G23384 G23392, G23412 G23413	G23277 G23278

¹ “12 1/2% w/ROY” is that category of tract in 400 to 799 meters of water with a royalty rate of 1/8 that is not eligible for an automatic royalty suspension volume.

² “12 1/2% w/RS3” is that category of tract in 800 to 1,599 meters of water with a royalty rate of 1/8 that is eligible for a royalty suspension volume of 9 MMBOE per lease.

³ “12 1/2% w/RS4” is that category of tract in 1,600 or more meters of water with a royalty rate of 1/8 that is eligible for a royalty suspension volume of 12 MMBOE per lease.

Appendix B

Western Gulf of Mexico
Outer Continental Shelf
Oil and Gas Lease Sale 180

Bidding by Number of Bids

Sale 180

All Tracts

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	272	85.00%	\$103.14	62.30%
2	38	11.88%	\$45.18	27.29%
3	6	1.88%	\$5.93	3.58%
4	2	0.62%	\$8.11	4.90%
<u>5+</u>	<u>2</u>	<u>0.62%</u>	<u>\$3.20</u>	<u>1.93%</u>
Total	320	100.00%	\$165.57	100.00%

Tracts with 1/6 Royalty Rate

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	123	86.01%	\$33.25	62.36%
2	17	11.89%	\$16.97	31.82%
3	3	2.10%	\$3.10	5.81%
4	0	0.00%	\$0.00	0.00%
<u>5+</u>	<u>0</u>	<u>0.00%</u>	<u>\$0.00</u>	<u>0.00%</u>
Total	143	100.00%	\$53.32	100.00%

Tracts with 1/8 Royalty Rate

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	149	84.18%	\$69.89	57.47%
2	21	11.86%	\$28.22	9.40%
3	3	1.69%	\$2.83	9.73%
4	2	1.13%	\$8.11	10.73%
<u>5+</u>	<u>2</u>	<u>1.13%</u>	<u>\$3.20</u>	<u>2.67%</u>
Total	177	100.00%	\$112.25	100.00%

Sale 180, by Water Depth Category

1/6 Royalty (<200 meters; 20 billion cubic feet Royalty Suspension Volume [RSV] for gas from deep wells, i.e., drilling depth of 15,000 feet or more)

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	108	86.40%	\$29.22	62.91%
2	15	12.00%	\$15.52	33.41%
3	2	1.60%	\$1.71	3.69%
4	0	0.00%	\$0.00	0.00%
<u>5+</u>	<u>0</u>	<u>0.00%</u>	<u>\$0.00</u>	<u>0.00%</u>
Total	125	100.00%	\$46.45	100.00%

1/6 Royalty (200-399 meters; no automatic RSV)

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	15	83.33%	\$4.03	58.67%
2	2	11.11%	\$1.45	21.10%
3	1	5.56%	\$1.39	20.23%
4	0	0.00%	\$0.00	0.00%
<u>5+</u>	<u>0</u>	<u>0.00%</u>	<u>\$0.00</u>	<u>0.00%</u>
Total	18	100.00%	\$6.86	100.00%

1/8 Royalty (400-799 meters; no automatic RSV)

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	22	53.66%	\$22.96	41.87%
2	14	34.15%	\$24.35	44.41%
3	2	4.88%	\$2.51	4.58%
4	1	2.44%	\$1.81	3.30%
<u>5+</u>	<u>2</u>	<u>4.88%</u>	<u>\$3.20</u>	<u>5.84%</u>
Total	41	100.00%	\$54.83	100.00%

1/8 Royalty (800-1,599 meters; 9 MMBOE RSV per lease)

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	89	95.70%	\$31.85	77.89%
2	2	2.15%	\$2.42	5.93%
3	1	1.08%	\$0.32	0.78%
4	1	1.08%	\$6.30	15.41%
<u>5+</u>	<u>0</u>	<u>0.00%</u>	<u>\$0.00</u>	<u>0.00%</u>
Total	93	100.00%	\$40.90	100.00%

1/8 Royalty (1,600 or more meters; 12 MMBOE RSV per lease)

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	38	88.37%	\$15.08	91.26%
2	5	11.63%	\$1.44	8.74%
3	0	0.00%	\$0.00	0.00%
4	0	0.00%	\$0.00	0.00%
<u>5+</u>	<u>0</u>	<u>0.00%</u>	<u>\$0.00</u>	<u>0.00%</u>
Total	43	100.00%	\$16.53	100.00%

Appendix C

Western Gulf of Mexico
Outer Continental Shelf
Oil and Gas Lease Sale 180

Bidding by High Bid per Acre

Sale 180

All Tracts

High Bid/acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	187	58.44%	\$38.09	23.01%
\$50 - 74.99	50	15.63%	\$18.06	10.91%
\$75 - 99.99	19	5.94%	\$9.49	5.73%
\$100 - 149.99	30	9.38%	\$20.56	12.41%
<u>\$150+</u>	<u>34</u>	<u>10.63%</u>	<u>\$79.37</u>	<u>47.94%</u>
Total	320	100.00%	\$165.57	100.00%

Tracts with 1/6 Royalty Rate

High Bid/acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	93	65.03%	\$16.80	31.51%
\$50 - 74.99	20	13.99%	\$6.91	12.97%
\$75 - 99.99	5	3.50%	\$2.29	4.29%
\$100 - 149.99	14	9.79%	\$9.42	17.66%
<u>\$150+</u>	<u>11</u>	<u>7.69%</u>	<u>\$17.90</u>	<u>33.57%</u>
Total	143	100.00%	\$53.32	100.00%

Tracts with 1/8 Royalty Rate

High Bid/acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	94	53.11%	\$21.29	18.96%
\$50 - 74.99	30	16.95%	\$11.15	9.93%
\$75 - 99.99	14	7.91%	\$7.21	6.42%
\$100 - 149.99	16	9.04%	\$11.14	9.92%
<u>\$150+</u>	<u>23</u>	<u>12.99%</u>	<u>\$61.47</u>	<u>54.76%</u>
Total	177	100.00%	\$112.25	100.00%

Sale 180, by Water Depth Category

1/6 Royalty (<200 meters; 20 billion cubic feet Royalty Suspension Volume [RSV] for gas from deep wells, i.e., drilling depth of 15,000 feet or more)

High Bid/acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	170	50.30%	\$27.81	16.60%
\$50 - 74.99	48	14.20%	\$13.55	8.09%
\$75 - 99.99	35	10.36%	\$14.27	8.52%
\$100 - 149.99	32	9.47%	\$18.02	10.76%
<u>\$150+</u>	<u>53</u>	<u>15.68%</u>	<u>\$93.89</u>	<u>56.04%</u>
Total	338	100.00%	\$167.55	100.00%

1/6 Royalty (200-399 meters; no automatic RSV)

High Bid/acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	5	33.33%	\$0.93	6.94%
\$50 - 74.99	2	13.33%	\$0.77	5.75%
\$75 - 99.99	1	6.67%	\$0.54	4.00%
\$100 - 149.99	2	13.33%	\$1.43	10.62%
<u>\$150+</u>	<u>5</u>	<u>33.33%</u>	<u>\$9.79</u>	<u>72.70%</u>
Total	15	100.00%	\$13.46	100.00%

1/8 Royalty (400 - 799 meters; no automatic RSV)

High Bid/acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	16	43.24%	\$2.99	5.95%
\$50 - 74.99	7	18.92%	\$2.54	5.04%
\$75 - 99.99	6	16.22%	\$2.93	5.83%
\$100 - 149.99	2	5.41%	\$1.36	2.70%
<u>\$150+</u>	<u>6</u>	<u>16.22%</u>	<u>\$40.45</u>	<u>80.47%</u>
Total	37	100.00%	\$50.27	100.00%

1/8 Royalty (800-1,599 meters; 9 MMBOE RSV per lease)

High Bid/acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	30	27.27%	\$7.42	4.36%
\$50 - 74.99	22	20.00%	\$7.57	4.45%
\$75 - 99.99	14	12.73%	\$7.25	4.26%
\$100 - 149.99	15	13.64%	\$11.06	6.51%
<u>\$150+</u>	<u>29</u>	<u>26.36%</u>	<u>\$136.73</u>	<u>80.42%</u>
Total	110	100.00%	\$170.03	100.00%

1/8 Royalty (1,600 or more meters; 12 MMBOE RSV per lease)

High Bid/acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	27	57.45%	\$6.36	6.11%
\$50 - 74.99	3	6.38%	\$1.09	1.05%
\$75 - 99.99	3	6.38%	\$1.58	1.52%
\$100 - 149.99	3	6.38%	\$2.30	2.21%
<u>\$150+</u>	<u>11</u>	<u>23.40%</u>	<u>\$92.81</u>	<u>89.11%</u>
Total	47	100.00%	\$104.15	100.00%

Appendix D

Western Gulf of Mexico
Outer Continental Shelf
Oil and Gas Lease Sale 180

Bidding Results – Graphs

Distribution of High Bids Sale 180, WGOM

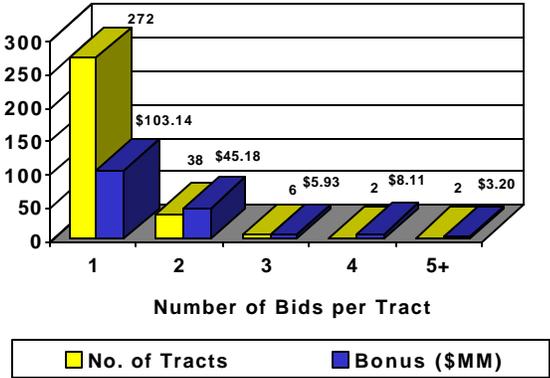
Prepared by:
Economics Division, MMS

Sale 180 (WGOM) Bidding Results

- 320 tracts received 386 bids (1.21 bids/tract)
- High bids were \$165.57 MM
- Average high bid per acre was \$92.49
- 50 companies submitted bids
- 143 tracts in < 400 meters received bids -
44.69% of tracts and 32.20% of high bids
- 177 tracts in 400+ meters received bids -
55.31% of tracts and 67.80% of high bids

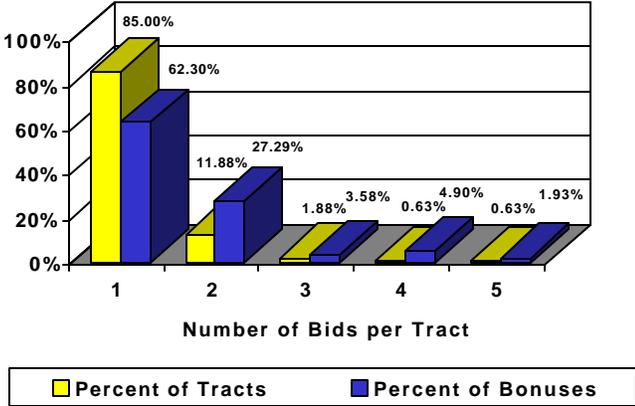
Sale 180, Aggregate

Bidding Activity by Bids per Tract



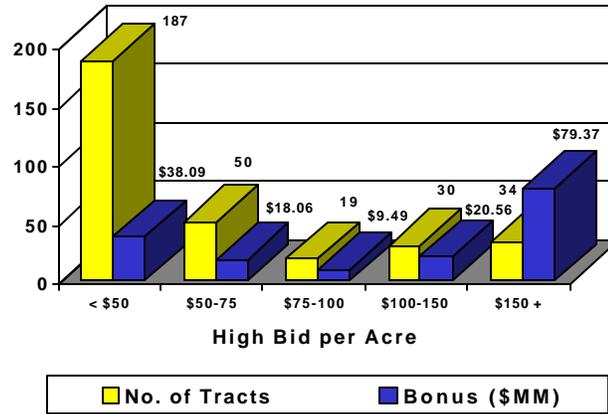
Sale 180, Aggregate

Bidding Activity by Bids per Tract



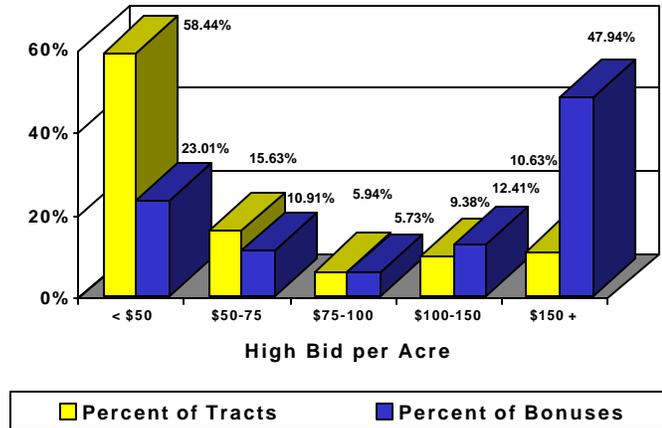
Sale 180, Aggregate

Bidding Activity by High Bid per Acre



Sale 180, Aggregate

Bidding Activity by High Bid per Acre



Sale 180

Bidding by Water Depth Category

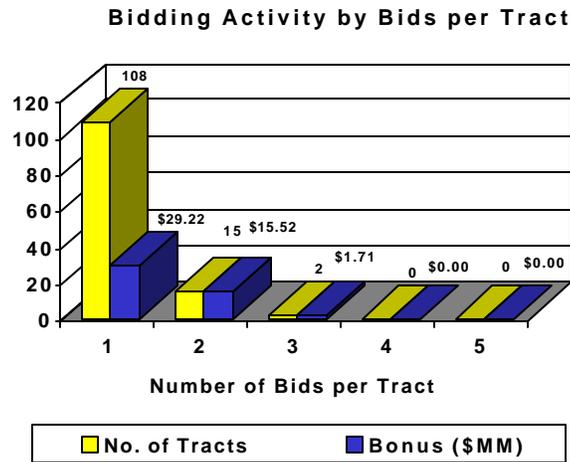
Prepared by:
Economics Division, MMS

Sale 180 (WGOM)

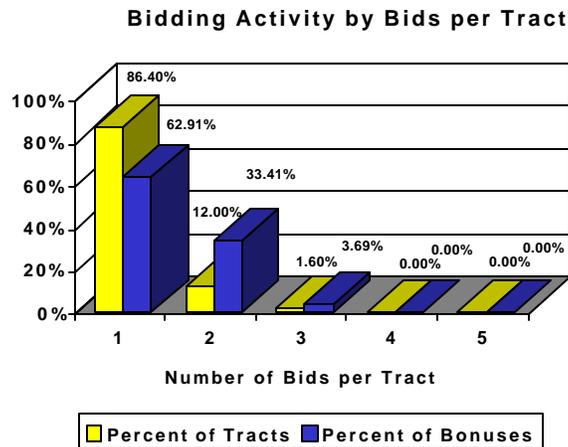
Bidding by Water Depth Category

- 125 tracts in < 200 meters received 144 bids and high bids of \$46.45 MM (\$67.43/acre)
- 18 tracts in 200-399 meters had 22 bids and high bids of \$6.86 MM (\$69.95/acre)
- 41 tracts in 400-799 meters had 72 bids and high bids of \$54.83 MM (\$232.17/acre)
- 136 tracts in > 800 meters had 148 bids and high bids of \$57.43 MM (\$74.88/acre)

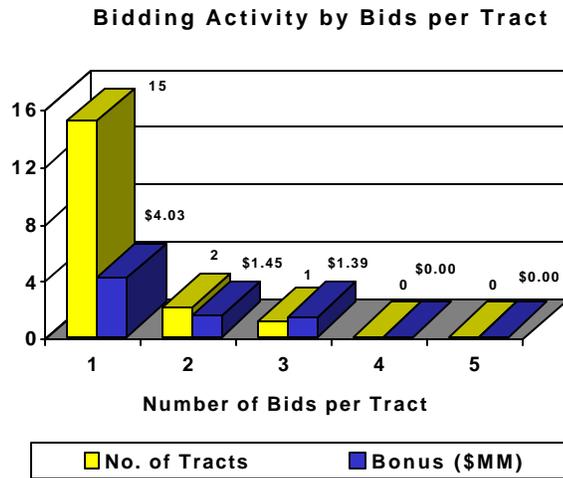
Sale 180, Tracts in < 200 Meters Water Depth



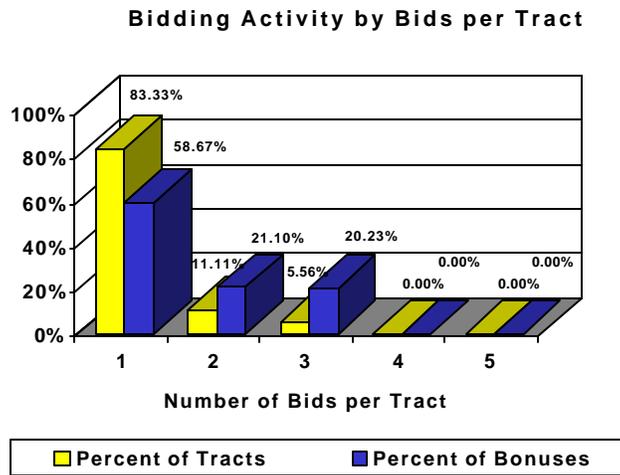
Sale 180, Tracts in < 200 Meters Water Depth



Sale 180, Tracts in 200-399 Meters Water Depth

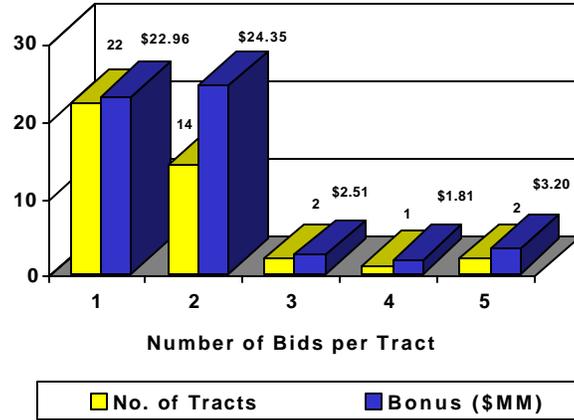


Sale 180, Tracts in 200-399 Meters Water Depth



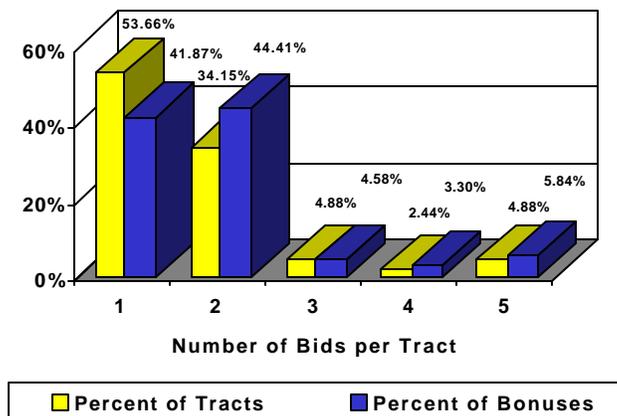
Sale 180, Tracts in 400-799 Meters Water Depth

Bidding Activity by Bids per Tract

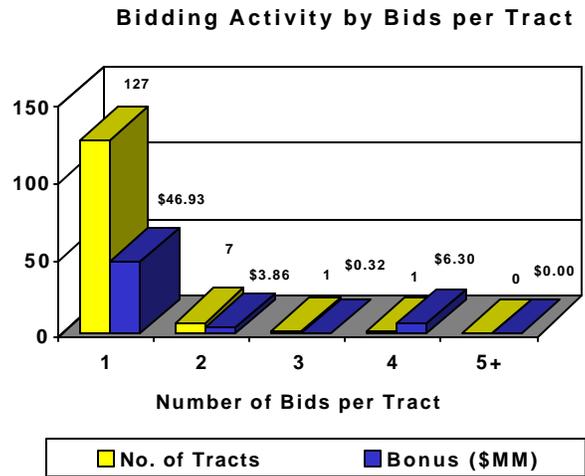


Sale 180, Tracts in 400-799 Meters Water Depth

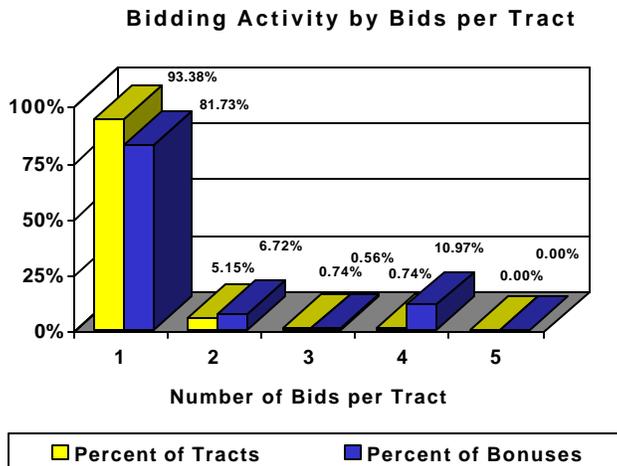
Bidding Activity by Bids per Tract



Sale 180, Tracts in 800+ Meters Water Depth

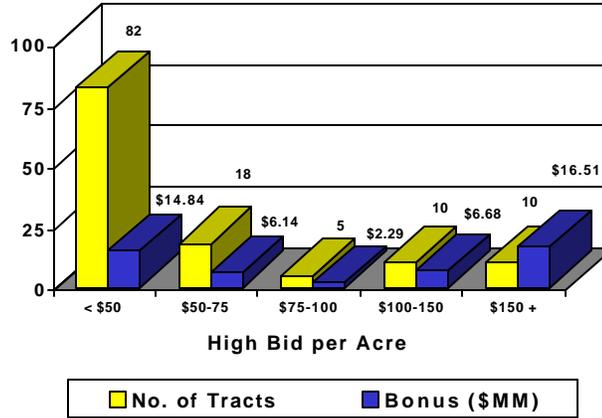


Sale 180, Tracts in 800+ Meters Water Depth



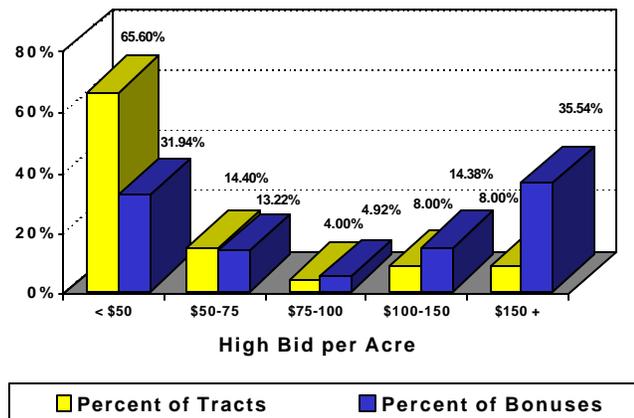
Sale 180, Tracts in < 200 Meters Water Depth

Bidding Activity by High Bid per Acre



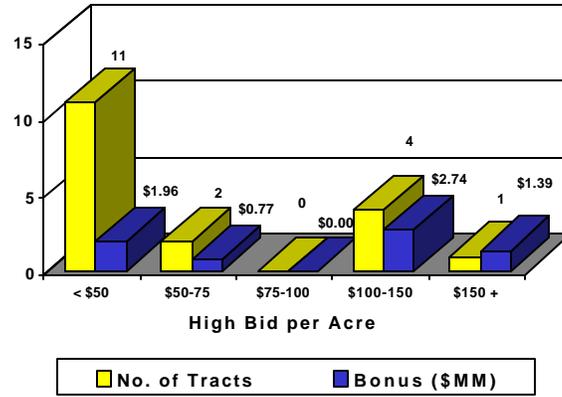
Sale 180, Tracts in < 200 Meters Water Depth

Bidding Activity by High Bid per Acre



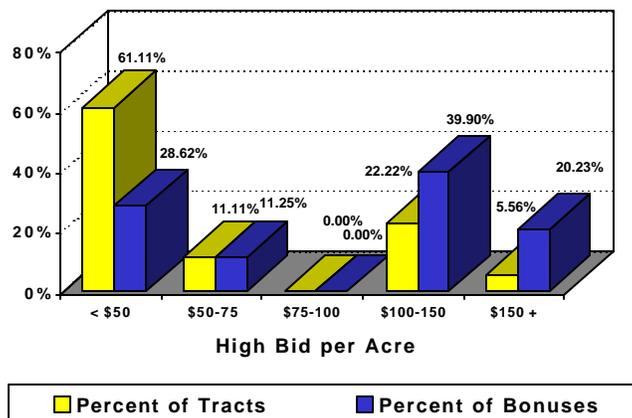
Sale 180, Tracts in 200-399 Meters Water Depth

Bidding Activity by High Bid per Acre



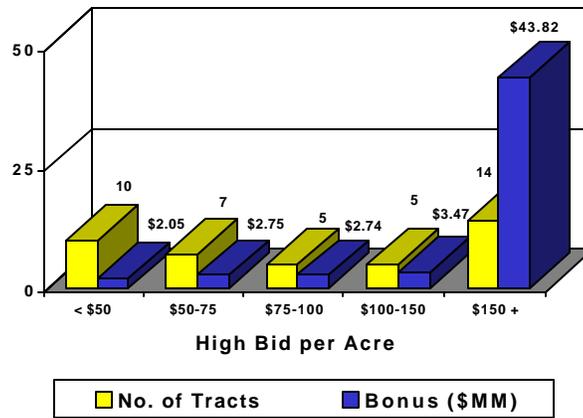
Sale 180 Tracts in 200-399 Meters Water Depth

Bidding Activity by High Bid per Acre



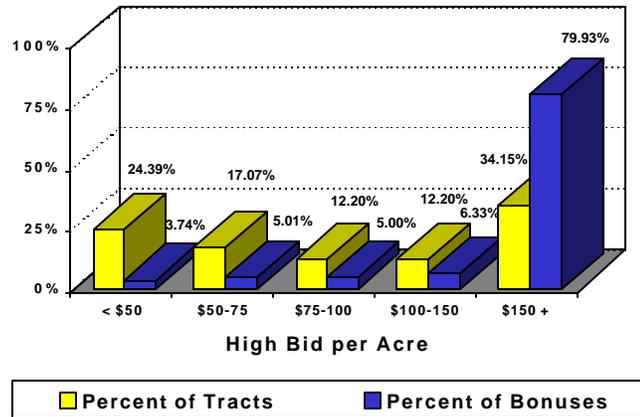
Sale 180, Tracts in 400-799 Meters Water Depth

Bidding Activity by High Bid per Acre

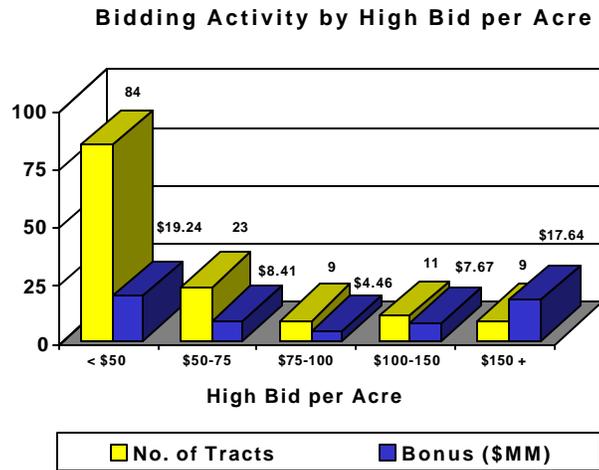


Sale 180, Tracts in 400-799 Meters Water Depth

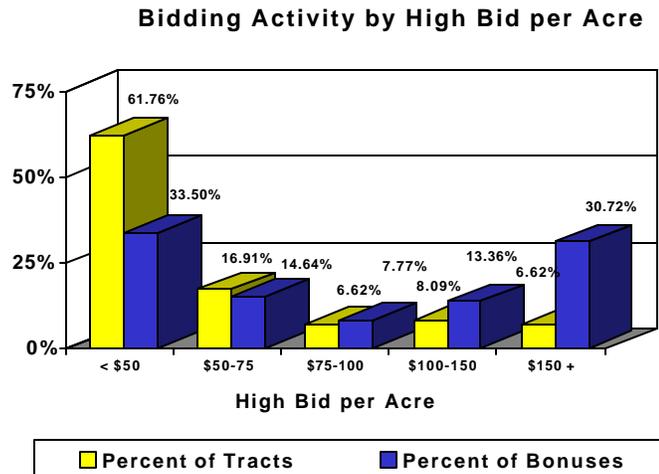
Bidding Activity by High Bid per Acre



Sale 180, Tracts in 800+ Meters Water Depth



Sale 180, Tracts in 800+ Meters Water Depth



Appendix E

Revised Arithmetic Average Measure (RAM)

Sale 180, Tracts with Three or More Bids

In Sale 180, three or more bids were received on 10 tracts, all confirmed or wildcat. The distribution of those bids by water depth category and third bid as a percent of high bid is presented in Table E1.

Table E1.—*Percent Difference Between a Tract’s High Bid and Third Bid by Water Depth Category*

Category	< 25%	25 - 50%	50 - 75%	> 75%	Total
< 200 m.	1	0	1	0	2
200 - 399 m.	1	0	0	0	1
400 - 799 m.	2	2	1	0	5
800 – 1,599 m.	1	0	1	0	2
1,600 m. or more	0	0	0	0	0
Total	5	2	3	0	10

Sale 180 was the ninth sale in which the modified number of bids rule was used for Phase 1 acceptance of high bids on selected tracts receiving three or more bids. Under the rule, high bids on wildcat and confirmed tracts receiving three or more bids are accepted in Phase 1, if the third highest bid on the tract is at least 50 percent of the high bid and the high bid per acre ranks in the top 75 percent of high bids per acre for all three-or-more bid tracts within a specified water depth category. (The procedure is described in the *Federal Register*, vol. 64, no.132, pp. 37560-37562.) In Sale 180, one three-or-more bid tract met the bid acceptance criteria described above.

Sale 180 was also the ninth sale using a modified Phase 2 averaging rule, the “Revised Arithmetic Average Measure” (RAM) of tract value. The RAM is a secondary bid acceptance rule that is used on multi-bid tracts if the Government’s value of the tract (ADV) exceeds the high bid. The RAM is an arithmetic average of a tract’s high bid, ADV, and all other bids that are at least 25 percent of the high bid. If a bid on a tract is not at least 25 percent of the high bid, that bid is considered an outlier and not included in the RAM calculation. Thus, the adjusted number of bids on a tract for the RAM calculation can be less than the total number of bids that a tract receives.

For those tracts on which the RAM is used as the bid acceptance rule, if the RAM is less than the tract’s high bid, the high bid is accepted and if the RAM exceeds the high bid, the high bid is rejected.

Nine tracts were passed to Phase 2 for further evaluation that potentially could use the RAM as the bid acceptance decision rule. Of those, two did not have second bids that were at least 25 percent of the high bids, so the use of the RAM as a Phase 2 decision criterion for those tracts was not a possibility. For the remaining seven tracts, the ADV's that would be needed to reject a tract's high bid using the RAM were calculated. Using the RAM, three tracts need an ADV of less than \$1 million and the other four would need an ADV of between \$2 million to \$3 million for high bid acceptance based on this criterion. The results are presented in Table E2.

Table E2.—ADV Needed to Reject a High Bid Using the RAM by Water Depth Category

Category	< \$1 MM	\$1-5 MM	\$5-10 MM	> \$10 MM	Total
< 200 m.	1	1	0	0	2
200 - 399 m.	0	1	0	0	1
400 - 799 m.	1	2	0	0	3
800 – 1,599 m.	1	0	0	0	1
1,600 m. or more	0	0	0	0	0
Total	3	4	0	0	7

Sale 180, Tracts with Three or More Bids Passed to Phase 2

Table E3.—Tracts in < 200 Meters; potential Royalty Suspension Volume of 20 billion cubic feet for natural gas from deep (more than 15,000 feet) wells

Tract	High Bid	No. of Bids	3 rd Bid as % of High Bid	Adjusted No. of Bids	ADV to Reject w/RAM
G23167	\$400,000	3	63.60%	3	\$625,590
G23183	\$1,312,000	3	24.39%	2	\$2,020,775

Table E4.—Tracts in 200 - 399 Meters; No Royalty Suspension Volume

Tract	High Bid	No. of Bids	3 rd Bid as % of High Bid	Adjusted No. of Bids	ADV to Reject w/RAM
G23275	\$1,388,334	3	10.98%	2	\$2,131,548

Table E5.—*Tracts in 400 – 799 Meters; No Royalty Suspension Volume*

Tract	High Bid	No. of Bids	3rd Bid as % of High Bid	Adjusted No. of Bids	ADV to Reject w/RAM
G23272	\$408,960	3	37.92%	3	\$850,315
G23276	\$1,812,000	4	11.70%	2	\$2,952,770
G23277	\$1,100,000	6	46.00%	4	\$2,760,500
G23303	\$2,101,900	3	12.50%	1	Not Applicable

Table E6.—*Tracts in 800 – 1,599 Meters or More; 9 MMBOE Royalty Suspension Volume*

Tract	High Bid	No. of Bids	3rd Bid as % of High Bid	Adjusted No. of Bids	ADV to Reject w/RAM
G23312	\$6,301,900	4	6.47%	1	Not Applicable
G23325	\$318,400	3	71.61%	3	\$466,200

The RAM was used in the acceptance of the high bid on tract G23275. For that tract, although the ADV on the tract was \$2 million, which exceeded the high bid, the high bid was accepted because it was larger than the tract's RAM of \$1,344,485.

Appendix F

Summary of Company Bids

Sale 180 - Company Bids by Total Amount of High Bids

Rank	Company #	Company Name	Total	High	Losers	Total Exposed	Total High Bids	Total Unsuccessful
1	2219	Kerr-McGee Oil & Gas	55	42	13	\$36,105,233	\$31,860,853	\$4,244,380
2	2169	Spinnaker Exploration	38	32	6	\$19,240,400	\$17,436,400	\$1,804,000
3	1207	Petrobras America	35	30	5	\$18,705,801	\$16,850,373	\$1,855,428
4	59	Amerada Hess	32	25	7	\$16,969,773	\$13,539,415	\$3,430,358
5	689	Shell Offshore	18	14	4	\$12,062,150	\$11,165,600	\$896,550
6	276	Exxon Mobil	29	29	0	\$7,843,000	\$7,843,000	\$0
7	1935	Pioneer Natural Resources	25	21	4	\$7,333,830	\$6,541,050	\$792,780
8	1777	Ocean Energy	18	17	1	\$6,554,940	\$6,349,440	\$205,500
9	1689	Murphy Exploration & Production	8	5	3	\$6,110,388	\$5,197,100	\$913,288
10	981	Anadarko Petroleum	28	26	2	\$5,509,888	\$5,072,128	\$437,760
11	2058	LLOG Exploration Offshore	8	5	3	\$5,955,000	\$4,605,000	\$1,350,000
12	3	Union Oil Co. of California	19	17	2	\$4,422,414	\$4,043,271	\$379,143
13	818	Mariner Energy	13	13	0	\$3,372,480	\$3,372,480	\$0
14	771	Texaco Exploration & Production	4	4	0	\$3,030,912	\$3,030,912	\$0
15	2117	Enterprise Oil GOM	10	10	0	\$2,235,840	\$2,235,840	\$0
16	1	Conoco	8	8	0	\$2,106,000	\$2,106,000	\$0
17	2421	Devon Energy Production	13	9	4	\$2,524,785	\$1,817,438	\$707,347
18	2401	Westport Resources	3	2	1	\$2,100,000	\$1,780,000	\$320,000
19	78	Chevron USA	6	5	1	\$1,993,962	\$1,756,285	\$237,677
20	2493	Pure Resources	3	3	0	\$1,592,586	\$1,592,586	\$0
21	2375	Duke Energy Hydrocarbons	4	3	1	\$1,679,861	\$1,572,391	\$107,470
22	2416	Denbury Resources	7	6	1	\$1,881,500	\$1,561,500	\$320,000
23	236	El Paso Production	4	4	0	\$1,537,920	\$1,537,920	\$0
24	1046	The Houston Exploration Co.	3	2	1	\$2,272,266	\$1,500,426	\$771,840
25	1978	The William G. Helis Co.	5	4	1	\$1,158,557	\$1,094,804	\$63,753
26	724	Marathon Oil	4	4	0	\$1,019,520	\$1,019,520	\$0
27	537	Paragon Petroleum	5	5	0	\$903,624	\$903,624	\$0
28	2397	Samson Offshore	9	6	3	\$1,468,450	\$865,913	\$602,537
29	282	Dominion Exploration & Production	1	1	0	\$845,550	\$845,550	\$0
30	2538	Manti Resources	5	5	0	\$768,670	\$768,670	\$0

Rank	Company #	Company Name	Total	High	Losers	Total Exposed	Total High Bids	Total Unsuccessful
31	2481	BP Exploration & Production	2	2	0	\$630,473	\$630,473	\$0
32	2462	F-W Oil Interests	3	3	0	\$617,500	\$617,500	\$0
33	730	Walter Oil & Gas	7	2	5	\$1,911,909	\$588,471	\$1,323,438
34	2349	Magnum Hunter Production	4	3	1	\$727,544	\$549,272	\$178,272
35	1958	Maxus (US) Exploration	4	4	0	\$499,251	\$499,251	\$0
36	1904	Burlington Resources Offshore	5	3	2	\$927,960	\$485,758	\$442,202
37	64	Hunt Oil	2	2	0	\$366,336	\$366,336	\$0
38	2480	Davis Offshore	3	1	2	\$583,930	\$281,310	\$302,620
39	2377	MCX Gulf of Mexico	4	4	0	\$249,251	\$249,251	\$0
40	1624	TCD Energy	2	2	0	\$236,008	\$236,008	\$0
41	1999	Houston Energy	5	4	1	\$227,475	\$216,546	\$10,929
42	1364	Newfield Exploration	2	1	1	\$1,405,440	\$201,600	\$1,203,840
43	2291	Juniper Energy	1	1	0	\$180,029	\$180,029	\$0
44	185	Samedan Oil	4	1	3	\$1,215,750	\$175,500	\$1,040,250
45	2248	Agip Petroleum Exploration	1	1	0	\$167,048	\$167,048	\$0
46	1824	DDD Energy	2	2	0	\$147,438	\$147,438	\$0
47	2417	Arena Energy	1	1	0	\$114,500	\$114,500	\$0
48	2486	Osprey Petroleum	1	0	1	\$200,001	\$0	\$200,001
49	2475	Sterling Energy	1	0	1	\$182,620	\$0	\$182,620
50	1513	Callon Petroleum Operating	2	0	2	\$75,563	\$0	\$75,563

Appendix G

Sales 180 and 177

Active Bidders

Companies Participating in 15 or More Bids in Sale 180

Company	Co. #	< 200 m.	200 - 400 m.	400 - 800 m.	800 - 1,599 m.	1,600 + m.	Total	Exposure	Exposure Rank	Exposure per Bid
Kerr-McGee Oil & Gas	2219	1	13	22	14	5	55	\$36,105,233	1	\$656,459
Spinnaker Exploration	2169	28	0	5	5	0	38	\$19,240,400	2	\$506,326
Petrobras America	1207	0	2	19	8	6	35	\$18,705,801	3	\$534,451
Amerada Hess	59	2	2	14	10	4	32	\$16,969,773	4	\$530,305
Exxon Mobil	276	15	0	0	12	2	29	\$7,843,000	6	\$270,448
Anadarko Petroleum	981	0	0	3	23	2	28	\$5,509,888	11	\$196,782
Pioneer Natural Resources	1935	12	0	1	12	0	25	\$7,333,830	7	\$293,353
Union Oil Co. of California	3	5	1	1	0	12	19	\$4,422,414	12	\$232,759
Shell Offshore	689	9	2	2	1	4	18	\$12,062,150	5	\$670,119
Ocean Energy	1777	0	0	1	12	5	18	\$6,554,940	8	\$364,163

Companies Participating in 10 or More Bids in Sale 177

Company	Co. #	< 200 m.	200-400 m.	400-800 m.	800 + m.	Total	Exposure	Exposure Rank	Exposure per Bid
Kerr-McGee Oil & Gas	2219	0	0	5	19	24	\$16,569,710	2	\$690,405
Union Oil - California	3	14	2	0	6	22	\$18,792,640	1	\$854,211
Shell Offshore	689	22	0	0	0	22	\$4,724,000	12	\$214,727
CXY Energy Offshore	2079	0	0	4	16	20	\$13,086,576	4	\$654,329
Anadarko Petroleum	981	6	1	0	11	18	\$5,072,000	10	\$281,778
Spinnaker Exploration	2169	11	1	1	4	17	\$9,595,309	5	\$564,430
Pioneer Natural Resources	1935	12	0	2	2	16	\$8,158,902	6	\$509,931
PanCanadian GOM	2194	13	0	2	1	16	\$5,418,625	9	\$338,664
Amerada Hess	59	0	0	1	12	13	\$16,072,178	3	\$1,236,321
Ocean Energy	1777	1	0	0	12	13	\$6,653,860	8	\$511,835
Devon Energy	2421	5	0	0	7	12	\$5,049,094	11	\$420,758
Murphy Exploration	1689	3	1	0	7	11	\$6,784,370	7	\$616,761

Appendix H

Sales 180 and 177

Comparison of Sales - Graphs

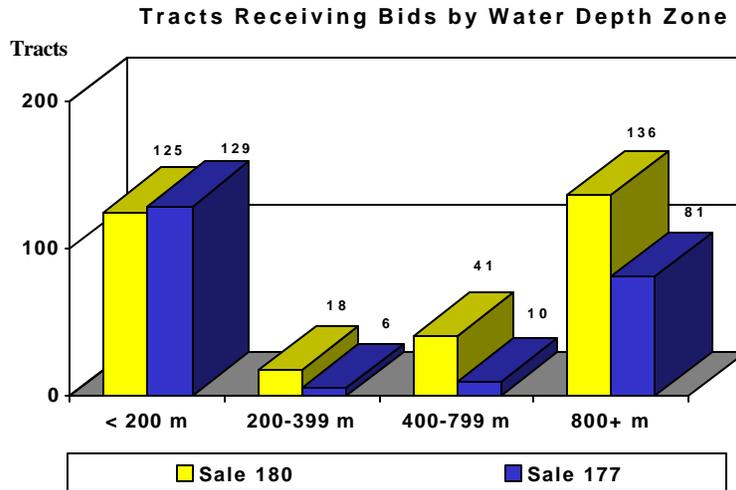
Sale 180 v. Sale 177

Prepared by:
Economics Division, MMS

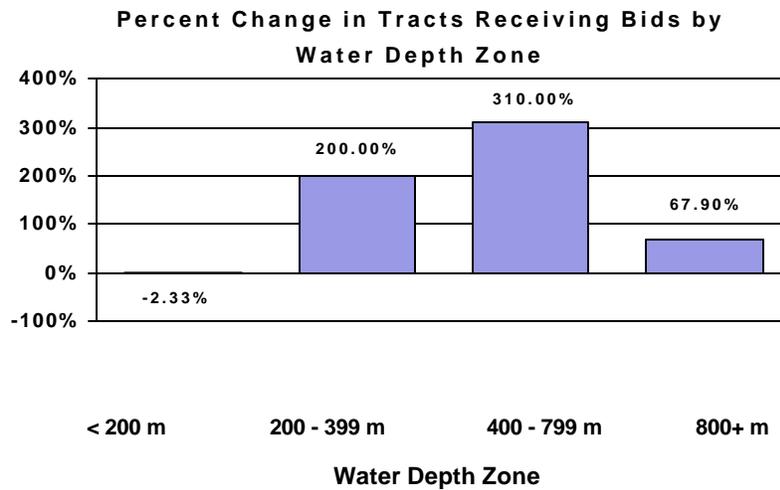
Sale 180 v. Sale 177 (WGOM) Comparison of Results

- In aggregate, 320 tracts received high bids of \$165.57 MM in Sale 180 and 226 tracts received high bids of \$153.66 MM in Sale 177
- Bids per tract increased from 1.18 to 1.21 in Sale 180
- Sale 180 had 125 tracts in < 200 m. receiving high bids of \$46.45 MM v. 129 tracts and high bids of \$46.48 MM in Sale 177
- Sale 180 had 195 tracts in > 200 m. receiving high bids of \$119.12 MM v. 97 tracts and high bids of \$107.12 MM in Sale 177

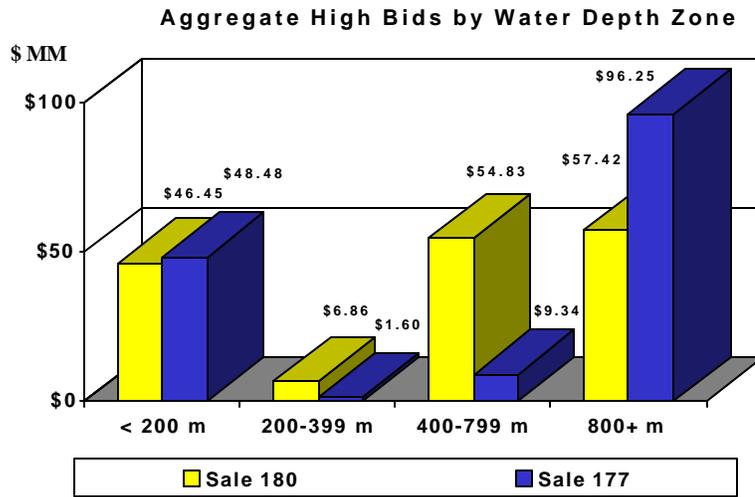
Sale 180 v. Sale 177 - Tracts



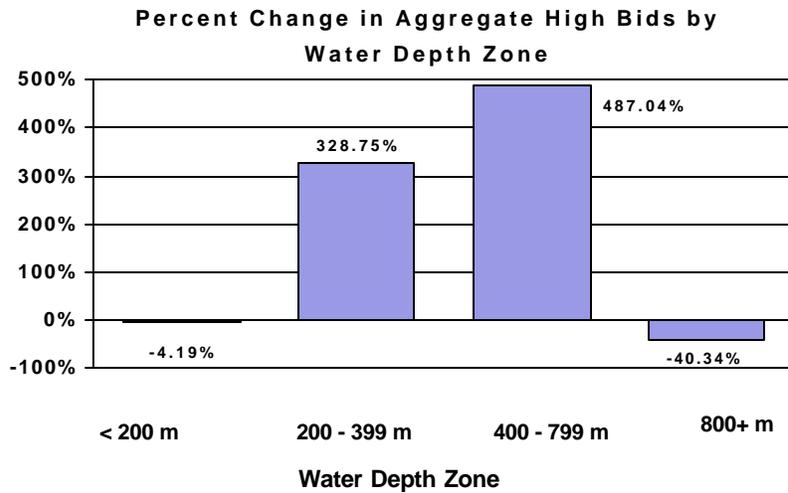
Sale 180 v. Sale 177 - Tracts



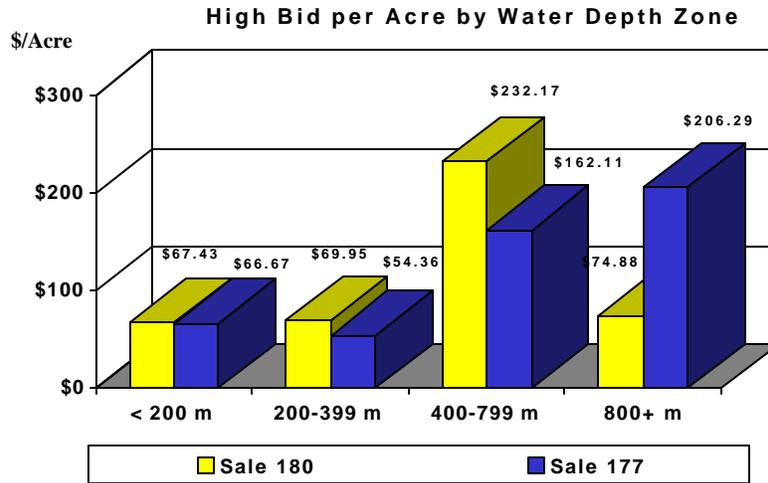
Sale 180 v. Sale 177 - Bonuses



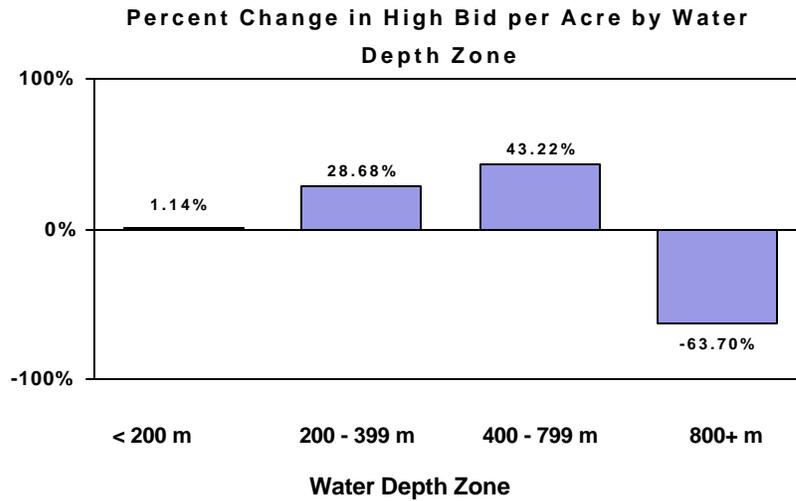
Sale 180 v. Sale 177 - Bonuses



Sale 180 v. Sale 177 - High Bid per Acre

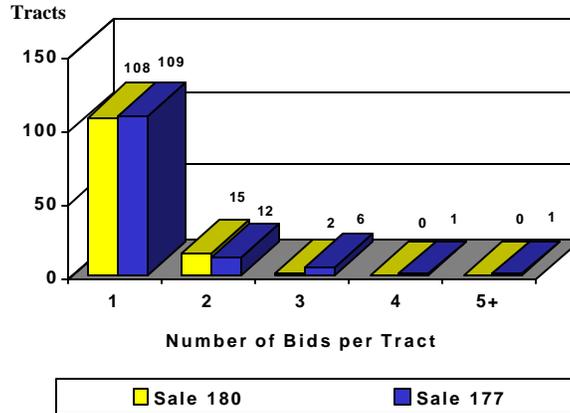


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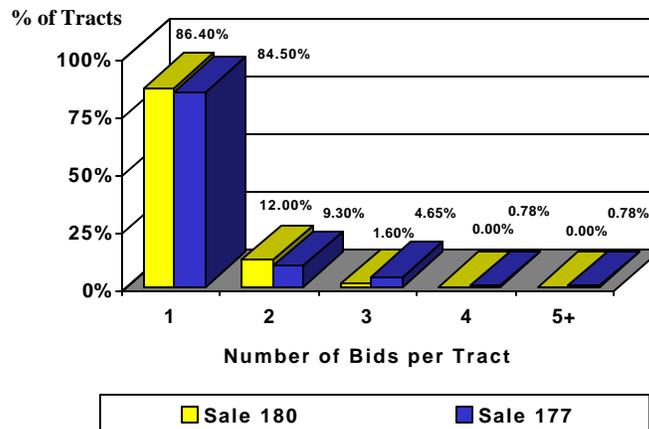
Sale 180 v. Sale 177 - Tracts < 200 Meters Water Depth

Bidding Activity by Bids per Tract

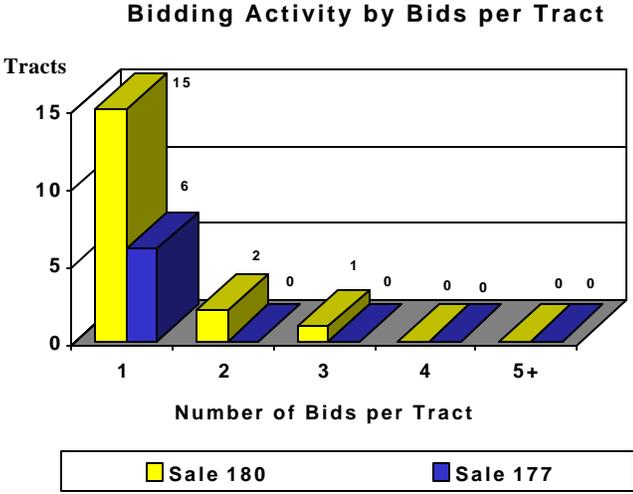


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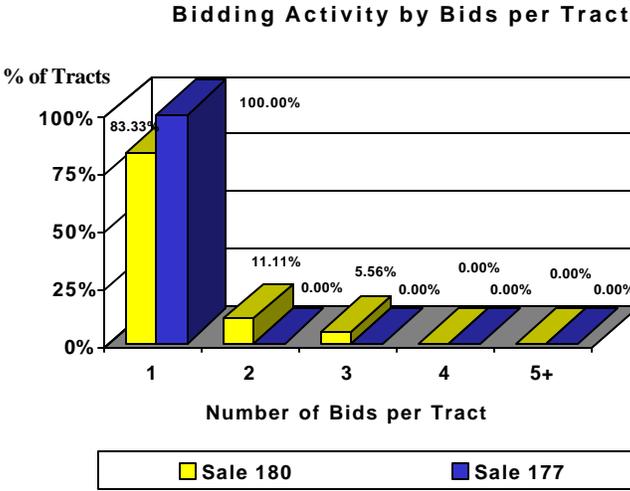
Bidding Activity by Bids per Tract



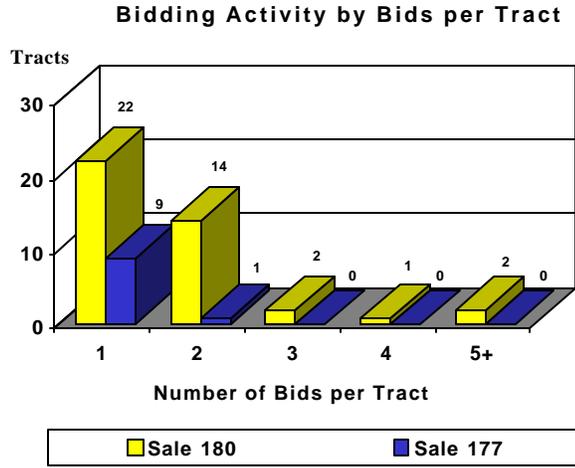
Sale 180 v. Sale 177 - Tracts in 200 to 399 Meters Water Depth



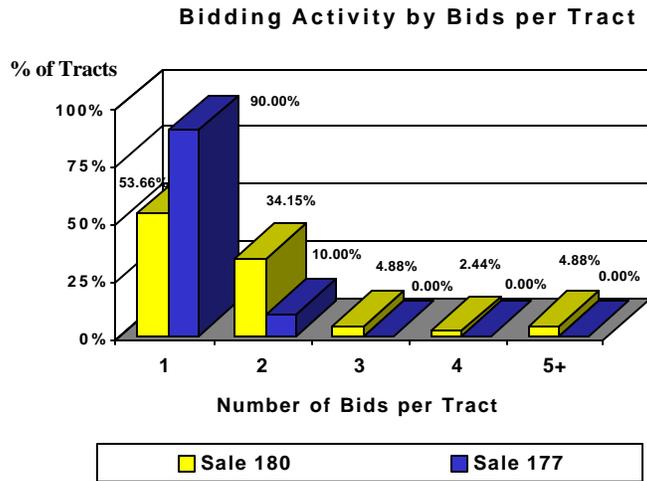
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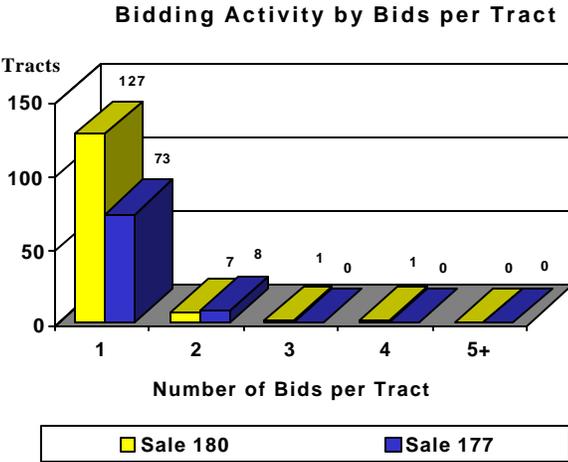
Sale 180 v. Sale 177 - Tracts in 400 to 799 Meters Water Depth



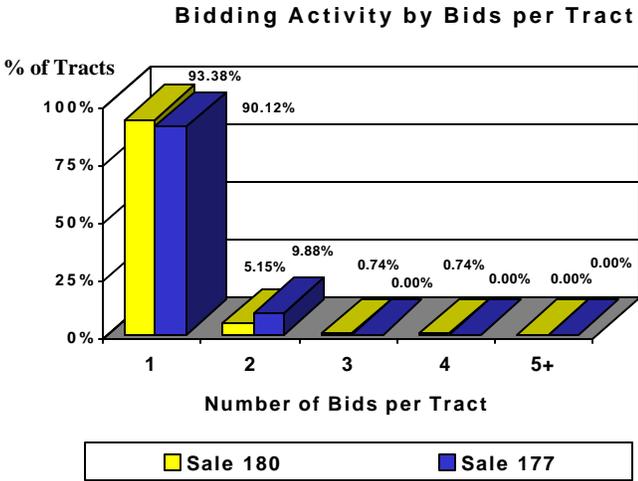
Sale 180 v. Sale 177 - Tracts in 400 to 799 Meters Water Depth



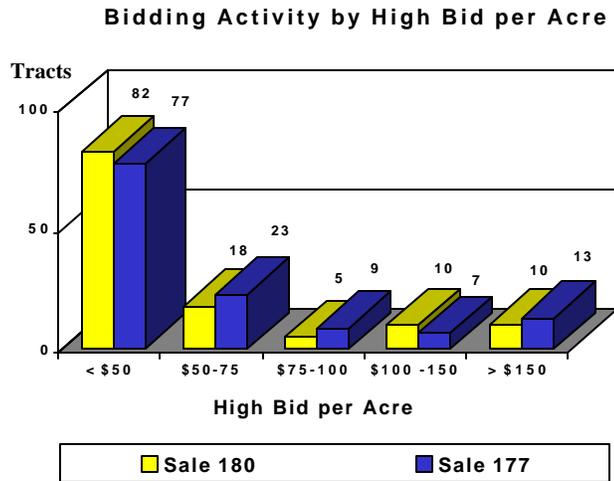
Sale 180 v. Sale 177 - Tracts in 800+ Meters Water Depth



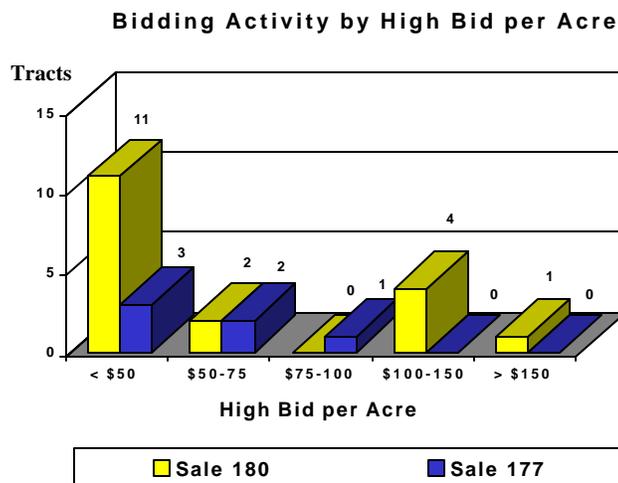
Sale 180 v. Sale 177 - Tracts in 800+ Meters Water Depth



Sale 180 v. Sale 177 - Tracts < 200 Meters Water Depth

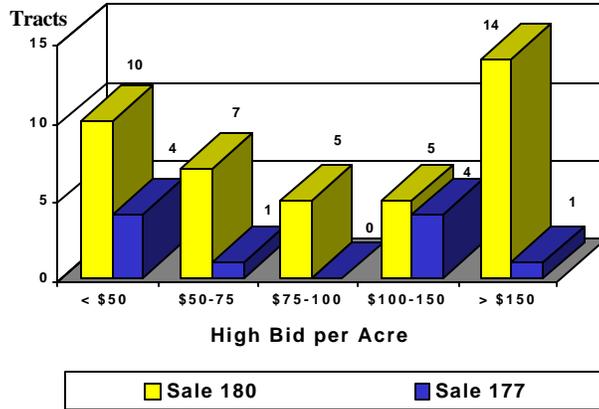


Sale 180 v. Sale 177 - Tracts in 200 to 399 Meters Water Depth



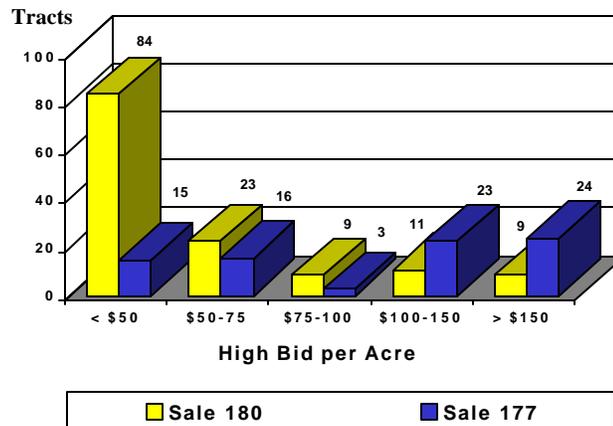
Sale 180 v. Sale 177 - Tracts in 400 to 799 Meters Water Depth

Bidding Activity by High Bid per Acre



Sale 180 v. Sale 177 - Tracts in 800+ Meters Water Depth

Bidding Activity by High Bid per Acre



Appendix I

High Bid Rejections

Sale 180 Rejections

High bids on seven tracts were rejected in Sale 180. All of the rejected blocks received one bid. By water depth category, the rejections were as follows: five in less than 200 meters, one in 400 to 799 meters, and one in 1,600 meters or more.

Table I1.—*Sale 180, Rejections in Water Depths Less than 200 Meters; Royalty Rate = 1/6; Potential Royalty Suspension Volume for Natural Gas from Deep (15,000 feet or more) Wells*

Tract No.	Bids	High Bid	ADV	RAM
G23104	1	\$151,375	\$470,000	NA
G23109	1	\$84,633	\$610,000	NA
G23137	1	\$175,900	\$630,000	NA
G23140	1	\$275,900	\$800,000	NA
G23218	1	\$229,000	\$840,000	NA

Table I2.—*Sale 180, Rejection in Water Depths 400-799 Meters; Royalty Rate = 1/8; No Royalty Suspension Volume*

Tract No.	Bids	High Bid	ADV	RAM
G23301	1	\$671,230	\$1,300,000	NA

Table I3.—*Sale 180, Rejection in Water Depths 1,600 Meters or More; Royalty Rate = 1/8; 12 MMBOE Royalty Suspension Volume*

Tract No.	Bids	High Bid	ADV	RAM
G23388	1	\$356,177	\$1,700,000	NA

Appendix J

Bid Adequacy Procedures

[Federal Register: July 12, 1999 (Volume 64, Number 132)]
[Notices]
[Page 37560-37562]
From the Federal Register Online via GPO Access [wais.access.gpo.gov]
[DOCID:fr12jy99-108]

DEPARTMENT OF THE INTERIOR

Minerals Management Service

Modifications to the Bid Adequacy Procedures

AGENCY: Minerals Management Service (MMS), Interior.

ACTION: Notification of procedural change.

SUMMARY: The Minerals Management Service (MMS) has changed a criterion in its existing bid adequacy procedures for ensuring receipt of fair market value on Outer Continental Shelf (OCS) oil and gas leases. The change ensures consistency in the evaluation of tracts.

DATES: This modification is effective July 1, 1999.

FOR FURTHER INFORMATION CONTACT: Dr. Marshall Rose, Chief, Economics Division, at (703) 787-1536.

The revised bid adequacy procedures are described below.

What Definitions Apply to These Procedures?

The *MROV* is a dollar measure of a tract's expected net present value, if that tract is leased in the current sale. The calculation of the *MROV* allows for exploration and economic risk, and includes tax consequences, e.g., depletion of the cash bonus.

The *delayed MROV (DMROV)* is a measure used to determine the size of the high bid needed in the current sale to equalize it with the discounted sum of the bonus and royalties expected in the next sale, less the foregone royalties from the current sale. The bonus for the next sale is computed as the *MROV* associated with the delay in leasing under the projected economic, engineering, and geological leasing receipts conditions, including drainage. If the high bid exceeds the *DMROV*, then the leasing receipts from the current sale are expected to be greater than those from the next sale, even in cases in which the *MROV* exceeds the high bid.

The *Adjusted Delayed Value (ADV)* is the minimum of the MROV and the DMROV.

The *RAM* is the revised arithmetic average measure of the MROV and all qualified bids on a tract that are equal to at least 25 percent of the high bid.

Anomalous bids are all but the highest bid submitted for a tract by the same company (bidding alone or jointly with another company), parent, or subsidiary. These bids are excluded when applying the number of bids rule or any other bid adequacy measure.

Legal bids are those bids which comply with the MMS regulations (30 CFR 256) and the Notice of Sale, e.g., equal or exceed the specified minimum bid. Any illegal bid will be returned to the bidder.

Qualified bids are those bids that are legal and not anomalous.

MONTCAR is a probabilistic, cash flow computer simulation model used to conduct a resource-economic evaluation that results in an estimate of the expected net present value of a tract (or prospect).

Nonviable tracts or prospects are those geographic or geologic configurations of hydrocarbons that are estimated to be uneconomic to produce with the costs and anticipated future prices used in the analysis.

Within the context of our bid adequacy procedures, the term “*unusual bidding patterns*” typically refers to a situation in which two or more companies bid against each other more often than would normally be expected. Companies could agree to bid against each other on certain sets of tracts in a sale so that the number of bids rule would apply for bid acceptance. Other forms of unusual bidding patterns exist as well, and generally involve anti-competitive practices, e.g., if it appears that companies are attempting to avoid bidding against each other in a sale on a set of prospective tracts.

A *confirmed tract* is a previously leased tract having a well(s) which encountered hydrocarbons and may have produced. It contains some oil and/or gas resources whose volume may or may not be known.

A *development tract* is a tract which has nearby productive (past or currently capable) wells with indicated hydrocarbons and which is not interpreted to have a productive reservoir extending under the tract. There should be evidence supporting the interpretation that at least part of the tract is on the same general structure as the proven productive well.

A *drainage tract* is a tract which has a nearby well which is capable of producing oil or gas, and the tract could incur drainage if and when such a well is placed on production. The reservoir, from which the nearby well is capable of producing, is interpreted to extend under the drainage tract to some extent.

A *wildcat tract* is a tract which has neither nearby productive (past or currently capable) wells, nor is interpreted to have a productive reservoir extending under the tract. It has high risk in addition to sparse well control.

Water depth categories for bid adequacy purposes in the Gulf of Mexico are designated as (1) less than 800 meters and (2) 800 meters or more.

If different water depth categories are used for a Gulf of Mexico sale, they will be specified in the sale's final notice. For areas other than the Gulf of Mexico, all tracts will be considered to be in the same water depth category, unless an alternative is specified in the final notice of sale.

What Problem Is Addressed by the Change?

In any OCS lease sale, a limited number of tracts may be reclassified from drainage or development (DD) in Phase 1 of the bid evaluation process to confirmed or wildcat (CW) in Phase 2. (The MMS reclassifies a tract if additional Phase 2 analysis supports a classification different than the one assigned the tract in Phase 1 of the evaluation.) However, under the old bid adequacy procedures, a tract classified as CW in Phase 1 was evaluated under different criteria than a tract that was reclassified as CW in Phase 2. This change ensures the consistent treatment of similarly classified tracts whether they are evaluated in Phase 1 or Phase 2.

What Change Is Being Made?

In Phase 1 of the bid adequacy procedures, the MMS classifies tracts as either CW or DD based on information available at the time of sale. Under the old (February 10, 1999) guidelines, tracts within designated water depth categories that were reclassified from DD to CW in Phase 2 only had to have a third largest bid within 50 percent of the high bid to be accepted. Now, DD tracts reclassified as CW tracts must satisfy the same criteria for acceptance that would have had to be met if they were classified as CW in Phase 1.

To ensure consistency in evaluations, the following change is being made. In Phase 1, for CW tracts receiving three-or-more qualified bids, acceptance under the number of bids rule will apply only if the third largest bid is within 50 percent of the high bid, and if the high bid is in the top 75 percent of high bids on a per acre basis for all three-or-more-bid tracts within designated water depth categories. In Phase 2 of the bid evaluation process, DD tracts that have been reclassified as CW will be subject to the same screening criteria that the CW tracts with three-or-more bids had to meet in Phase 1.

How Are Bids Evaluated?

During the bid review process, we conduct evaluations in a two-phased procedure for bid adequacy determination. We also review bids to ensure that they are for at least the minimum amount specified in the notice of sale and that unusual bidding patterns are not present.

What Happens in Phase 1 of the Bid Adequacy Procedures?

In Phase 1, we partition the tracts receiving bids into three general categories:

1. Those tracts with three-or-more bids, on which competitive market forces can be used to assure fair market value;
2. Those tracts which we identify as being nonviable based on adequate data and maps; and
3. Those tracts which we identify as being viable and on which we have the most detailed and reliable data, including tracts classified as DD.

What Phase 1 Rules Are Applied to All Tracts Receiving Bids?

Six Phase 1 rules are applied to all tracts receiving bids:

1. We accept the highest qualified bid on viable CW tracts receiving three-or-more qualified bids if the third largest bid on the tract is at least 50 percent of the highest qualified bid and if the high bid per acre ranks in the top 75 percent of high bids for all three-or-more-bid tracts within a specified water depth category.
2. We accept the highest qualified bid on CW tracts that we determine to be nonviable.
3. We pass to Phase 2 all tracts that require additional information to make a determination on viability or tract type.
4. We pass to Phase 2 all viable CW tracts receiving one or two qualified bids.
5. We pass to Phase 2 all viable CW tracts receiving three-or-more qualified bids if either the third largest such bid is less than 50 percent of the highest qualified bid or if the high bid per acre ranks in the lowest 25 percent of high bids for all three-or-more-bid tracts in the specified water depth category.
6. We pass to Phase 2 all DD tracts.

How Is the Percentile Ranking of a Tract's High Bid Calculated?

The percentile ranking of a tract's high bid is calculated by multiplying 100 times the ratio of the numerical ordering of the three-or-more-bid tract's high bid to the total number of all three-or-more-bid tracts in the designated water depth. For example, suppose there are 21 total tracts identified in Phase 1 as receiving three-or-more-bids in the designated water depth category of at least 800 meters. All tracts in this set having a high bid among the top 15 high bids would satisfy the 75 percent requirement; the 15th ranked high bid would represent the 71st percentile, i.e., $(100 * (15/21) = 71)$.

Can any Other Procedures Be Used in Phase 1 to Ensure the Receipt of Fair Market Value?

In ensuring the integrity of the bidding process, the Regional Director may identify an unusual bidding pattern at any time during the bid review process, but before a tract's high bid is accepted. If the finding is documented, the Regional Director has discretionary authority, after consultation with the Solicitor, to pass those identified tracts to Phase 2 for further analysis. The Regional Director may eliminate all but the largest of the unusual bids from consideration when applying any bid adequacy rule, may choose not to apply a bid adequacy rule, or may reject the tract's highest qualified bid.

How Long Does it Take To Complete the Phase 1 Procedures?

These procedures are generally completed within 3 weeks of the bid opening. All the leases that will be awarded as a result of the Phase 1 analysis are announced at the end of this period.

How Long Do the Phase 2 Procedures Take?

The Phase 2 bid adequacy determinations are normally completed sequentially over a period ranging between 21 and 90 days after the sale. Leases are awarded as the analysis of bids is completed over this time period. The total evaluation period can be extended, if needed, at the Regional Director's discretion (61 FR 34730, July 3, 1996).

What are the Initial Steps of the Bid Adequacy Process that Are Followed in Phase 2?

Activities to assess bids are undertaken by analyzing, partitioning, and evaluating tracts in two steps:

1. Further mapping and/or analysis is performed to review, modify, and finalize viability determinations and tract classifications.
2. Tracts we identify as being viable must undergo an evaluation to determine if fair market value has been received.

What Decision Rules Are Applied in Phase 2 of the Bid Evaluation Process?

After completing the initial two steps, a series of rules and procedures are followed.

1. We accept the highest qualified bid on newly classified CW tracts having three-or-more qualified bids if its third largest bid is at least 50 percent of the highest qualified bid and if its high bid per acre ranks in the top 75 percent of high bids for all three-or-more-bid tracts that reside within its specified water depth category.
2. We accept the highest qualified bid on all tracts determined to be nonviable.
3. We determine whether any categorical fair market evaluation technique(s) will be used.

If so we:

- A. Evaluate, define, and identify the appropriate threshold measure(s) for bid acceptance.
 - B. Accept all tracts whose individual measures of bid adequacy satisfy the threshold categorical requirements.
4. We conduct a full-scale evaluation, which could include the use of MONTCAR, on all remaining tracts passed to Phase 2 and still awaiting an acceptance or rejection decision.

What Subset of Tracts Comprise the “Remaining Tracts” That Still Need a Phase 2 Acceptance or Rejection Decision?

The remaining tracts include tracts not accepted by a categorical rule that we classify as:

- 1. DD tracts, or
- 2. CW tracts that are viable and received:
 - A. One or two qualified bids, or
 - B. Three-or-more qualified bids, if either its third largest bid is less than 50 percent of the highest qualified bid or the high bid is in the bottom 25 percent of all three-or-more-bid CW tracts within a designated water depth category.

What Procedures Are Followed for Evaluating the Adequacy of Bids on These Tracts?

For these tracts we:

- 1. Accept the highest qualified bid, if it equals or exceeds the tract's ADV.
- 2. Reject the highest qualified bid on DD tracts receiving three-or-more qualified bids, if the high bid is less than one-sixth of the tract's MROV.
- 3. Reject the highest qualified bid on DD tracts receiving one or two qualified bids and on CW tracts receiving only one qualified bid, if the high bid is less than the tract's ADV.

What Happens Next to the Tracts Still Awaiting an Acceptance or Rejection Decision?

At this stage of the process, the tracts still awaiting a decision consist of those having a highest qualified bid that is less than the ADV that are either:

- 1. DD tracts receiving three-or-more qualified bids with the highest bid exceeding one-sixth of the tract's MROV or
- 2. Viable CW tracts that receive two-or-more qualified bids.

From these tracts, we select the following:

- A. DD tracts having three-or-more qualified bids with the third largest bid being at least 25 percent of the highest qualified bid, and
- B. CW tracts having two-or-more qualified bids with the second largest bid being at least 25 percent of the highest qualified bid.

We then compare the highest qualified bid on each of these selected tracts to the tract's RAM. For all these tracts, we:

- 1. Accept the highest qualified bid, if the high bid equals or exceeds the tract's RAM, or
- 2. Reject the highest qualified bid, if the high bid is less than the tract's RAM.

Finally, we identify those tracts that are still awaiting a decision, but did not meet the requirements for comparison to the RAM and we reject the high bid on these tracts.

At this point, the acceptance or rejection decisions are made on all the high bids in the sale. The successful bidders are notified and their leases are awarded after the full payment of the high bid is received. The unsuccessful bidders are notified as well and their bid deposits are returned. Unsuccessful bidders may appeal a bid rejection decision as described in 30 CFR 256.47(e)(3).

Dated: July 1, 1999.

Carolita U. Kallaur,
Associate Director for Offshore Minerals Management.
[FR Doc. 99-17662 Filed 7-9-99; 8:45 am]
BILLING CODE 4310-MR-P



The Department of the Interior Mission

As the Nation's principal conservation agency, the Department of the Interior has responsibility for most of our nationally owned public lands and natural resources. This includes fostering sound use of our land and water resources; protecting our fish, wildlife, and biological diversity; preserving the environmental and cultural values of our national parks and historical places; and providing for the enjoyment of life through outdoor recreation. The Department assesses our energy and mineral resources and works to ensure that their development is in the best interests of all our people by encouraging stewardship and citizen participation in their care. The Department also has a major responsibility for American Indian reservation communities and for people who live in island territories under U.S. administration.



The Minerals Management Service Mission

As a bureau of the Department of the Interior, the Minerals Management Service's (MMS) primary responsibilities are to manage the mineral resources located on the Nation's Outer Continental Shelf (OCS), collect revenue from the Federal OCS and onshore Federal and Indian lands, and distribute those revenues.

Moreover, in working to meet its responsibilities, the **Offshore Minerals Management Program** administers the OCS competitive leasing program and oversees the safe and environmentally sound exploration and production of our Nation's offshore natural gas, oil and other mineral resources. The **MMS Minerals Revenue Management** meets its responsibilities by ensuring the efficient, timely and accurate collection and disbursement of revenue from mineral leasing and production due to Indian tribes and allottees, States and the U.S. Treasury.

The MMS strives to fulfill its responsibilities through the general guiding principles of: (1) being responsive to the public's concerns and interests by maintaining a dialogue with all potentially affected parties and (2) carrying out its programs with an emphasis on working to enhance the quality of life for all Americans by lending MMS assistance and expertise to economic development and environmental protection.